



December 19, 2006

**AGENDA ITEM 5**

**TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE**

- I. SUBJECT:** 2006 Second Quarter Self-Funded Health Plans Financial Report
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Information Only
- IV. ANALYSIS:**

**Background**

The purpose of this report is to provide the Board with an update on the status of the financial reserves for the self-funded health plans. This report covers the second quarter of 2006 (ending June 30, 2006).

**Anticipated Experience Due to Reserve Draw-down**

A portion of the excess reserves were used to reduce the 2005 and 2006 premiums. As a direct result of this approach, the loss ratio for the entire 2006 year is expected to exceed 100%. At the end of the second quarter, the overall loss ratio combined for the self-funded health plans was 100%. This resulted in a small underwriting gain of \$2.7 million overall between the four self-funded health plans. The second quarter produced results in line with expectations taking into consideration that this is the second year of the draw-down of reserves. Assets above the actuarial reserve requirements, as of the end of the second quarter, were \$179 million, an increase over the first quarter by \$10 million. This increase was primarily due to the annual pharmacy rebates received during this quarter.

The Supplement to Medicare plans continue to have loss ratios above break-even. PERS Choice Supplement to Medicare had a loss ratio of 110% while the PERSCare Supplement to Medicare had a loss ratio of 111%. The Supplement to Medicare plans generally experience their highest claim volume early in the year as Medicare deductibles are paid for by the Supplement to Medicare plans. The Basic plans tend to gradually increase in cost throughout the year due to the gradual effect of aging and inflation. Consequently, it is expected that the Supplement to Medicare plans will experience a slight gain in subsequent quarters, while the Basic plans will experience a loss in subsequent quarters.

The following attachments provide more detailed financial and trend information.

### **Attachment 1**

This attachment displays summary results for the second quarter of 2005 and 2006 as well as the prior two years. Although the Supplement to Medicare plans continue to have high loss ratios (111% for PERSCare and 110% for PERS Choice), this represents a decrease from the prior year. This was expected due to the use of excess reserves combined with the Medicare effect where Supplement to Medicare plans generally experience their highest claim volume early in the year as Medicare deductibles are paid for by the Supplement to Medicare plans.

The most notable development is the continued higher than expected rolling 12-month medical trend of the PERS Choice Basic plan. The PERS Choice Basic plan trend continues to escalate, primarily due to the increase in large (over \$50,000) claims (the number of these claims has increased by 9% for the first six months of 2006). Staff continues to work with our third party administrator; renegotiated contracts with better stop-loss arrangements are not reflected in this reporting period.

### **Attachment 2**

This attachment presents the per-member-per-month (pmpm) medical and pharmacy claims costs for five quarters beginning with the second quarter of 2005.

The year-to-year medical costs show lower than expected increases from PERSCare Basic at 1.4% to PERSCare Supplement to Medicare at 6.7%.

It should be noted that pharmacy claims continue to increase at higher than expected amounts with a 12.9% -17.4% increase in year-to-year pmpm across the four self-funded health plans. This is a 1.9% -5% increase in pmpm pharmacy costs over the first quarter of 2006. This increase is likely caused by the transition of Pharmacy Benefit Managers as members were anticipating the change and were renewing prescriptions and prior authorization medicines early to not be caught short during the transition.

### **Attachment 3**

This attachment presents asset values and asset changes for the self-funded health plans.

As of June 30, 2006, total Program assets (line 15) exceeded the actuarial reserve (line 17) by over \$179 million. The excess in assets less reserves increased by \$10 million over the first quarter, primarily due to the receipt of the pharmacy rebates being received during the quarter. Although the PERS Choice Supplement to Medicare plan assets (line 12) exceed the actuarial reserve by only \$3.8 million (consistent with the first quarter), overall the asset level continues to be positive.

### **Attachment 4**

This attachment highlights the relative strength of the assets compared to the actuarial reserve.

The overall level of the assets in the self-funded health plans remains strong. The second quarter asset levels met expectations. The PERS Choice Supplement to Medicare plan assets above actuarial reserves continue to be low. The surpluses in the PERS Choice Supplement to Medicare plan have decreased from \$17 million in the first quarter of 2005 to \$3.8 million in the first quarter of 2006 and remain at this level in the current quarter. Staff is closely watching this trend.

#### **Attachment 5**

This attachment shows the overall enrollment trend for the four self-funded health plans.

The PERSCare Basic plan enrollment continues to decline, which places this plan at a greater risk of volatility. Because of the small number of total covered lives in this plan (23,566 as of June 2006), relatively few adverse situations can have an inordinate effect on the plan's financials.

Even though the PERSCare Basic plan's financial situation remains strong at this time, staff, working with input from actuarial consultants, continues to monitor this situation.

#### **Looking Forward**

The overall financial position of the self-funded health plans remains strong. The ongoing positive financial results for the program assets provide assurance that the rates approved by the Board for the 2006 plan year will be sufficient to fund benefits and to maintain adequate reserves.

#### **V. STRATEGIC PLAN:**

This directly relates to Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

#### **VI. RESULTS/COSTS:**

This item is presented as information only.

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Attachments